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# EDMONTON

## MARKET OVERVIEW & FORECAST

Soaring energy prices were a positive driver of growth in the Alberta economy in 2005. As a direct result, the Edmonton economy grew by 2.0% in 2005, with GDP expected to expand by 3.7% in 2006. High crude oil prices, coupled with significant oil sands investment, have continued to attract both foreign and inter-provincial labour to the Edmonton region pushing the population above the 1.0 million mark.

The demand for all classes of real estate should remain strong through 2006 and into the foreseeable future. Overall, Edmonton is in a positive, steady growth position. As businesses expand and investors continue to seek well-situated properties with positive potential, Edmonton will continue to experience positive growth momentum.

## OFFICE MARKET HIGHLIGHTS

The Edmonton office market performed well in 2005, with the overall vacancy rate decreasing to 4.9%, down considerably from the end of 2004. Expect 2006 to be another solid year for the Edmonton office market.

### EDMONTON MARKET AT A GLANCE

POPULATION  
1.0 million

OFFICE INVENTORY  
21.7 million sf

OFFICE VACANCY  
4.9%

CBD CLASS A VACANCY  
3.8%

INDUSTRIAL INVENTORY  
80 million sf

INDUSTRIAL VACANCY  
2.9%

The most active market was the Downtown financial core Class A, where the vacancy rate decreased to 3.8%, from 5.8%, primarily as a result of leasing activity by the provincial government. Net rental rates in Class A buildings reached \$14.00 per square foot.

The Suburban market also improved as vacancy decreased to 7.2%, down from 8.3%. Net rents reached as high as \$12.00 per square foot for existing Class A buildings. Increased demand led to the development of three new buildings totalling 90,000 square feet. Net rents for new construction are in the \$17.00 to \$20.00 per square foot range.

## INDUSTRIAL MARKET HIGHLIGHTS

Edmonton's industrial market continues to reach new milestones with respect to lease rates, product availability, vacancy rates, and land prices. Strong industrial economies within the oil and gas sector around the province continue to drive down vacancy rates, which are now approaching 3.0%. Edmonton's tight labour market

and a significant increase in the cost of materials are contributing to the increased cost of construction.

Increasing product demand, rising construction costs, and dwindling supply of land and buildings are some of the factors driving the average net rental rate for industrial product higher. Average lease rates for existing buildings range from \$4.75 to \$7.00 per square foot throughout the city and new projects are achieving between \$6.25 to \$8.50 per square foot depending on the availability of excess land, power, cranes and additional special requirements. Serviced industrial zoned land prices have increased to an average of \$240,000 per acre throughout Edmonton.

## INVESTMENT MARKET HIGHLIGHTS

The Alberta economy is enticing developers and investors alike and, as a result, there is a high level of interest in Edmonton's real estate community. With a strong economy and low interest rates, cap rates continue to feel downward pressure, falling below 8.0% in some cases. Land prices have reached new highs and will likely continue to climb. Land continues to be the dominant investment category, accounting for 28.0% of all sales transactions during the first six months of 2005.

Although the market may experience a small increase in vacancy rates as newer buildings reach completion, vacancies remain low. As the market matures, the stock of new and old inventory is slowly becoming balanced.

## RETAIL MARKET HIGHLIGHTS

Edmonton's retail sector continues to expand in an effort to support the strong demand for products and services created as a result of continued population growth. Active retailers in 2005 were Save-On-Foods, Milestones, Montana's Cookhouse Saloon, Second Cup, Dollarama, Super Pet, Rexall, Tim Hortons, Safeway, Costco, and Designer Depot to name a few.

Low financing costs and strong retail demand coming from newly developed housing areas have emphasized the need for new grocery anchored developments. This trend is expected to continue throughout 2006 with grocers continuing to pursue new development opportunities in market areas where housing starts are at all time highs. Recent estimates indicate that there is approximately 4.1 million square feet of retail product either in the initial planning stages or under construction.

Edmonton's retail landscape for 2006 will continue to see sustainable growth in newly developing neighbourhoods, in addition to the redevelopment and expansion of existing projects, with the most notable being West Edmonton Mall's \$145 million dollar expansion.

